

## Message Text

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PAGE 01 STATE 249222  
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FM SECSTATE WASHDC  
TO AMEMBASSY TOKYO IMMEDIATE

C O N F I D E N T I A L STATE 249222

STADIS

DISTRIBUTE ONE COPY TO ASST SEC JULIUS KATZ ONLY

E.O. 11652: N/A

TAGS: ETRD, JA

SUBJECT: CWPS REPORT ON STEEL

REF: TOKYO 15888

1. COPY OF COUNCIL OF WAGE AND PRICE STABILITY REPORT ON STEEL WAS POUCHED TO EMBASSY OCTOBER 17 AND A COPY WILL BE IN YOUR OFFICE WHEN YOU RETURN TO WASHINGTON. BECAUSE OF GREAT LENGTH OF REPORT (120 PAGES), IT IS IMPRACTICAL TO CABLE FULL TEXT. IT IS LIKELY THAT GOJ HAS COPIES IN TOKYO AND EMBASSY MAY WISH TO EXPLORE POSSIBILITY OF BORROWING ONE FROM MITI OR FOREIGN MINISTRY UNTIL POUCHED COPY ARRIVES.

2. THE FOLLOWING ARE EXCERPTS FROM A BRIEFING MEMO  
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PREPARED OCTOBER 12 BY STA FOR UNDER SECRETARY COOPER,  
CONTAINING OUR INITIAL ASSESSMENT OF THE IMPLICATIONS OF  
THE CWPS REPORT:

3. BEGIN TEXT: IMPLICATIONS FOR INTER-AGENCY TASK FORCE

4. DESIGNED TO SERVE AS THE ADMINISTRATION'S COMPREHENSIVE

ANALYSIS OF THE STEEL PROBLEM, THE CWPS REPORT CONTAINS NO SPECIFIC POLICY RECOMMENDATIONS. ADVOCATES OF SEVERAL ALTERNATIVE APPROACHES TO THE PROBLEM WILL FIND SOME SUPPORT FOR THEIR VIEWS IN THE REPORT. DICK HEIMLICH OF STR, FOR EXAMPLE, BELIEVES THE REPORT SHOWS THAT NOTHING CAN BE DONE ON THE DOMESTIC FRONT TO HELP THE INDUSTRY AND, THEREFORE, THAT ONLY AN INTERNATIONAL ARRANGEMENT CAN PROVIDE AN EFFECTIVE SOLUTION.

5. BY CONTRAST WE BELIEVE THE REPORT REINFORCES THE PERCEPTION--SHARED BY OURSELVES AND MOST MEMBERS OF THE INTER-AGENCY TASK FORCE--THAT THE PROBLEM IS ESSENTIALLY DOMESTIC IN ORIGIN AND OUGHT TO BE DEALT WITH PRIMARILY BY DOMESTIC AND NOT TRADE POLICY MEASURES. (UP TO THIS POINT TONY SOLOMON HAS STEERED THE TASK FORCE AWAY FROM ANY SPECIFIC DISCUSSION OF TRADE POLICY MEASURES, APPARENTLY OUT OF THE CONVICTION THAT THE INDUSTRY MUST GIVE SOME INDICATION OF WHAT IT IS WILLING AND ABLE TO DO FOR ITSELF BEFORE WE MAKE ANY COMMITMENTS TO TRADE POLICY ACTIONS.) THIS IS NOT TO SAY THAT THE REPORT POINTS THE WAY TO ANY SIMPLE SOLUTION OF THIS PROBLEM. ON THE CONTRARY, IT ARGUES THAT MODERNIZATION OF THE U.S. INDUSTRY WOULD PRODUCE LIMITED COST REDUCTIONS AND CAN BE JUSTIFIED ECONOMICALLY ONLY IF THOSE REDUCTIONS EXCEED THE ADDITIONAL CAPITAL OUTLAYS (AN ESTIMATED 400-500 DOLLARS PER TON

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OF CAPACITY). NEVERTHELESS, THE CWPS REPORT IMPLIES THAT THE ADMINISTRATION AND THE INDUSTRY MIGHT CONSIDER ACTIONS DESIGNED TO:

- REDUCE LABOR COSTS PER TON, PERHAPS BY RAISING PRODUCTIVITY THROUGH HIGHER CAPACITY UTILIZATION;
- REMOVE INVESTMENT UNCERTAINTIES AND DISINCENTIVES TO MODERNIZATION CAUSED BY ENVIRONMENTAL REGULATIONS AND THEIR UNPREDICTABLE APPLICATION IN SPECIFIC CASES; AND
- REDUCE THE SIZABLE CAPITAL COSTS OF MODERNIZING EXISTING PLANT.

6. ACCORDING TO THE CWPS REPORT, THE DECLINING INTERNATIONAL COMPETITIVENESS OF U.S. STEEL IS NOT THE RESULT OF TECHNOLOGICAL INFERIORITY. IN VIEW OF HIGH CONSTRUCTION COSTS AND THE RELATIVE PRICES OF SCRAP AND IRON ORE, FOR EXAMPLE, IT MAKES ECONOMIC SENSE TO RETAIN SOME OPEN HEARTH FURNACES, WHICH ARE FAR MORE FLEXIBLE IN THEIR ABILITY TO HANDLE DIFFERENT SCRAP/HOT METAL PROPORTIONS, THAN BASIC OXYGEN FURNACES, WHICH ARE GENERALLY MORE

EFFICIENT BUT REQUIRE 70 PERCENT MOLTEN IRON. MOREOVER, WHILE U.S. STEELMAKERS MAY BE UNABLE TO COMPETE SUCCESSFULLY WITH THE JAPANESE IN THIRD MARKETS, THEY SHOULD BE ABLE TO DO SO IN THE U.S. MARKET, ACCORDING TO CWPS. LARGELY BECAUSE OF DIFFERENCES IN LABOR COSTS THE JAPANESE ENJOY A 15-20 PERCENT COST ADVANTAGE OVER THE U.S. (EC PRODUCERS HAVE LABOR AND RAW MATERIAL COSTS ROUGHLY EQUIVALENT TO U.S. STEELMAKERS.) HOWEVER, WHEN TRANSPORTATION AND TARIFF COSTS ARE CONSIDERED, EUROPE HAS NO COST ADVANTAGE AND JAPAN ONLY A SLIM ONE (ABOUT FIVE PERCENT) IN THE U.S. MARKET.

7. THE CWPS REPORT IMPLIES THAT THE U.S. IMPORT PROBLEM  
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STEMS FROM BOTH AGGRESSIVE DISCOUNTING BY FOREIGN SELLERS AND DUMPING. THOUGH IT RECOGNIZES THAT IT IS OFTEN HARD TO DISTINGUISH BETWEEN NORMAL COMPETITIVE BEHAVIOR AND DUMPING, THE REPORT NOTES THAT:

-- JAPAN CAN NORMALLY COMPETE WITH U.S. PRODUCERS ONLY IN COASTAL AREAS OR OTHER MARKETS SERVED BY WATER ROUTES.

-- EUROPEAN PRODUCERS HAVE BEEN SELLING AT LEAST A PORTION OF THEIR STEEL EXPORTS TO THE U.S. IN 1976-77 AT BELOW THE COST OF PRODUCTION.

8. MOREOVER, THE CWPS REPORT STRESSES THE VALUE OF IMPORT COMPETITION IN MODERATING DOMESTIC PRICE INCREASES. VIEWING LOW-PRICED IMPORTS AS A TRANSITORY PHENOMENON, THE REPORT WARNS AGAINST THE USE OF TARIFFS OR QUOTAS TO RESTRICT IMPORTS. SUCH RESTRICTIVE MEASURES WOULD SERVE TO RAISE DOMESTIC PRICES WITHOUT SUBSTANTIALLY INCREASING IN PERCENTAGE TERMS DOMESTIC OUTPUT OR EMPLOYMENT.

IMPLICATIONS FOR TRADE POLICY MEASURES

9. THIS CONCLUSION MAY STRENGTHEN OUR HAND SOMEWHAT AGAINST A VOLUNTARY RESTRAINT AGREEMENT, WHICH IS BECOMING INCREASINGLY ATTRACTIVE TO MANY INTERESTED PARTIES. AS YOU KNOW, THE JAPANESE APPEAR EAGER TO SETTLE ON A VRA UNDER CERTAIN CONDITIONS AND JACQUES FERRY, AN INFLUENTIAL SPOKESMAN FOR EC STEEL PRODUCERS, STATED LAST WEEKEND THAT THE EC PRODUCERS WOULD PREFER A VRA TO ANTI-DUMPING PROCEEDINGS. (EC COMMISSIONER DAVIGNON POURED COLD WATER ON THE IDEA AT AN OCTOBER 11 PRESS CONFERENCE, HOWEVER, ASSERTING THAT VOLUNTARY QUOTAS WOULD ONLY "CAMOUFLAGE THE TRUE PROBLEMS.") UNITED STEELWORKERS  
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PRESIDENT LLOYD MCBRIDE HAS ALSO ADVOCATED A VRA WITH JAPAN AND EUROPE. AS YOU ARE AWARE, REPRESENTATIVE VANIK HAS

PROPOSED A VRA AS A TEMPORARY MEASURE UNTIL AN INTERNATIONAL ARRANGEMENT MODELED ON THE MULTI-FIBER AGREEMENT COULD BE WORKED OUT IN AN MTN SECTOR NEGOTIATION. IN A SEPARATE MEMO TO YOU, BILL BARRACLOUGH IS REPORTING ON INDICATIONS THAT STR MAY FAVOR VANIK'S APPROACH.

10. IT MAY BE ESPECIALLY IMPORTANT, THEREFORE, THAT WE RENEW OUR EMPHASIS ON ANTIDUMPING MEASURES AS THE PREFERRED REMEDY FOR UNFAIR IMPORT PRICING. RECENT PRESS REPORTS INDICATE THAT THE INDUSTRY IS GRATIFIED BY THE PRELIMINARY DECISION IN THE GILMORE CASE, AND TREASURY IS EXPECTED TO MAKE AN EARLY DECISION TO INITIATE ITS INVESTIGATION OF THE SWEEPING U.S. STEEL PETITION AGAINST JAPANESE IMPORTS. TREASURY IS ALSO EXPECTED TO ACCEPT SHORTLY THE GEORGETOWN STEEL PETITION AGAINST DUMPING OF WIRE ROD BY FRENCH STEEL FIRMS. U.S. STEEL AND NATIONAL ARE REPORTEDLY PLANNING TO FILE PETITIONS AGAINST EUROPEAN STEEL IMPORTS BY THE END OF THIS MONTH. SHOULD THESE PETITIONS BE FILED AND ACCEPTED, TREASURY COULD BE IN A POSITION TO ACCEPT PRICE ASSURANCES BY FOREIGN PRODUCERS IN RETURN FOR DISCONTINUING ITS SALES AT LESS THAN FAIR VALUE INVESTIGATION. THIS STEP, WHICH WE UNDERSTAND TREASURY IS NOW CONSIDERING AS A POSSIBLE SOLUTION TO STEEL DUMPING CASES, WOULD PERMIT THE FOREIGN PRODUCER TO AVOID ANTIDUMPING DUTIES OR WITHHOLDING OF APPRAISEMENT BUT ARM TREASURY WITH THE THREAT OF IMMEDIATE WITHHOLDING SHOULD THE PRICE ASSURANCES BE VIOLATED. THIS APPROACH MIGHT PROVIDE AN EFFECTIVE SOLUTION TO THE UNFAIR PRICING PROBLEM WITHIN THE CONTEXT OF THE DUMPING STATUTE AND AVERT EVEN TEMPORARILY ANY QUANTITATIVE RESTRICTIONS. IT ALSO WOULD BE LESS INFLATIONARY THAN QUANTITATIVE RESTRICTIONS OR THE MORE TROUBLING MARKET SHARING ARRANGEMENT CONTEMPLATED. THE MAJOR DIFFICULTY WITH THIS

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APPROACH MAY LIE IN REACHING AGREEMENT ON A FAIR PRICE.  
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## Message Attributes

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